

Attracting investments and closing the finance gap for water and sanitation in Europe

Stef Smits, IRC



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Supporting water sanitation
and hygiene services for life



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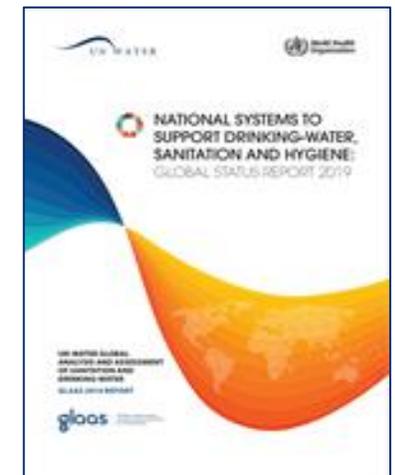
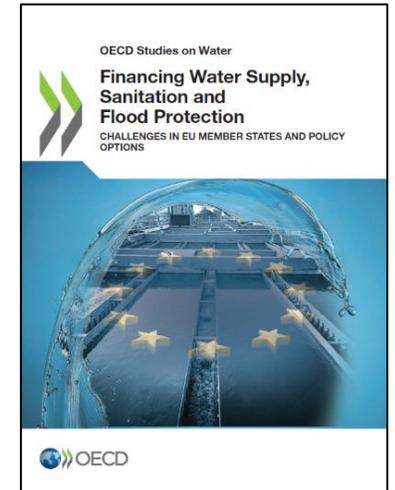


**World Health
Organization**

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Background: large financing gap for water supply and sanitation

- Large gap between financial needs and current levels of expenditure in water supply and sanitation in EU member States (OECD, 2020)
 - To reach the SDGs, national targets and EU technical directives
 - Requiring large additional expenditures
 - Balancing with affordability to users
- Though lacking detailed analysis for non-EU member States, World Bank estimates these to be high, up to 0.27% of GDP in Central Asia and Caucasus to reach safely managed services
- GLAAS report (2019):
 - Only 8 of the European countries report on whether they have undertaken analyses of financial sufficiency
 - Out of which 4 indicate large financial gaps

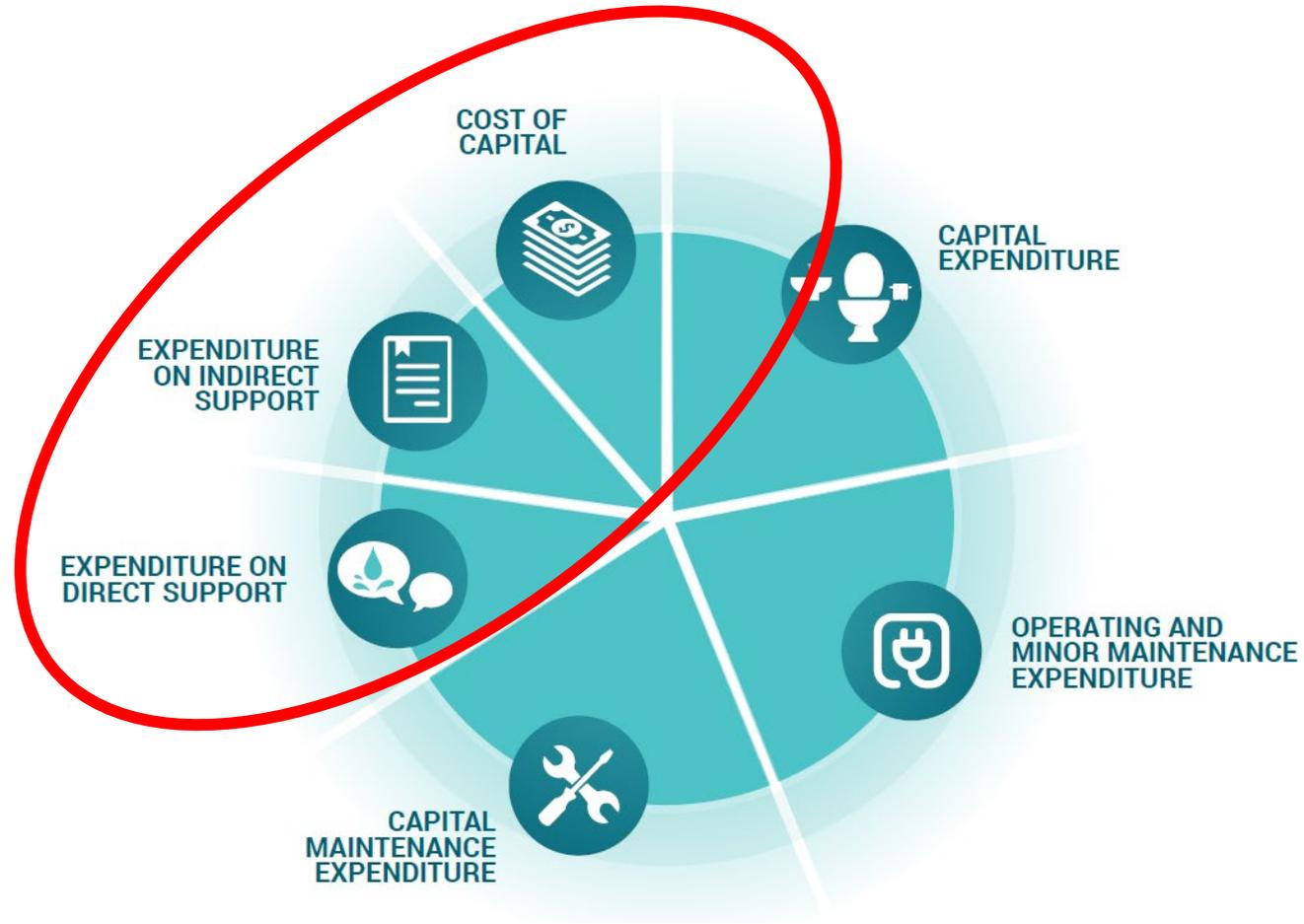


Background: large financing gap for water supply and sanitation

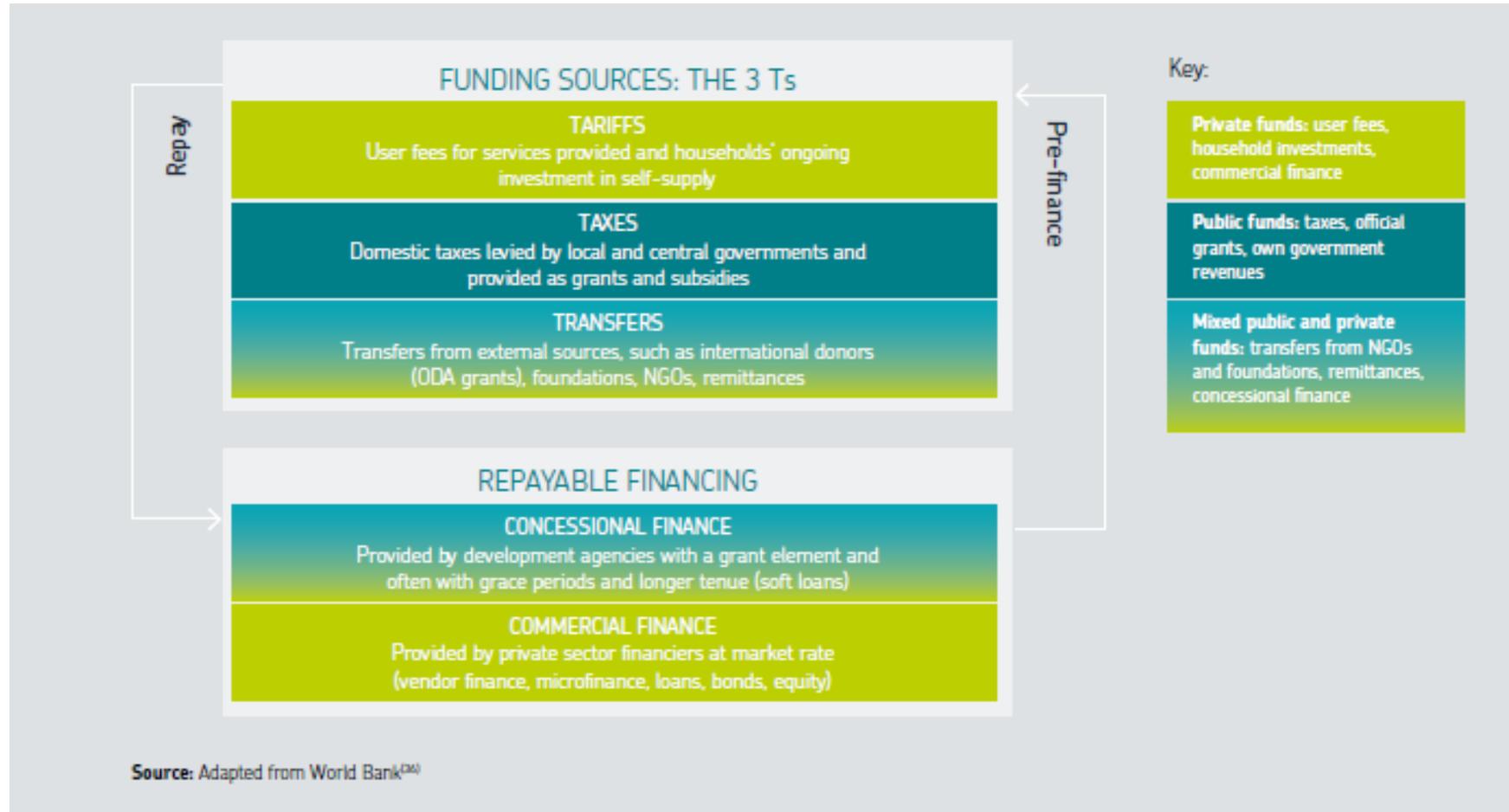
- Needs
 - Having a better – more detailed and disaggregated – insight into the current finance gap at country level
 - Identifying strategies to reduce the gaps
- Providing frameworks, approaches and tools for doing so



Understanding all the life-cycle costs...



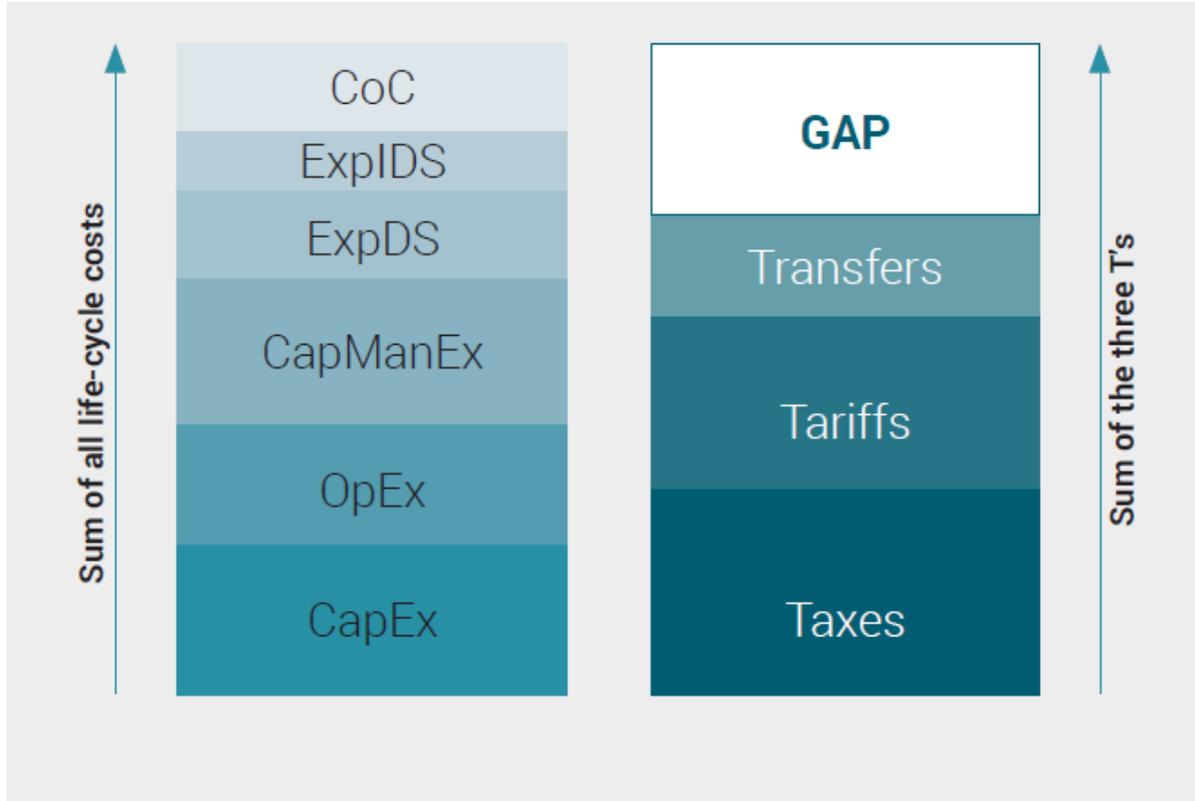
... in relation to the sources of finance



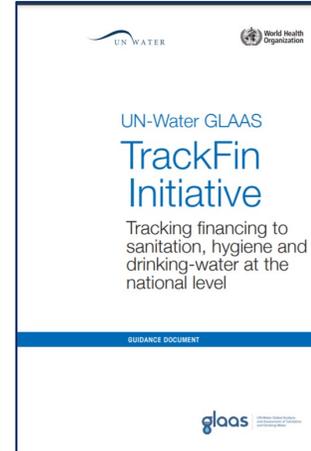
Source: SWA, 2020



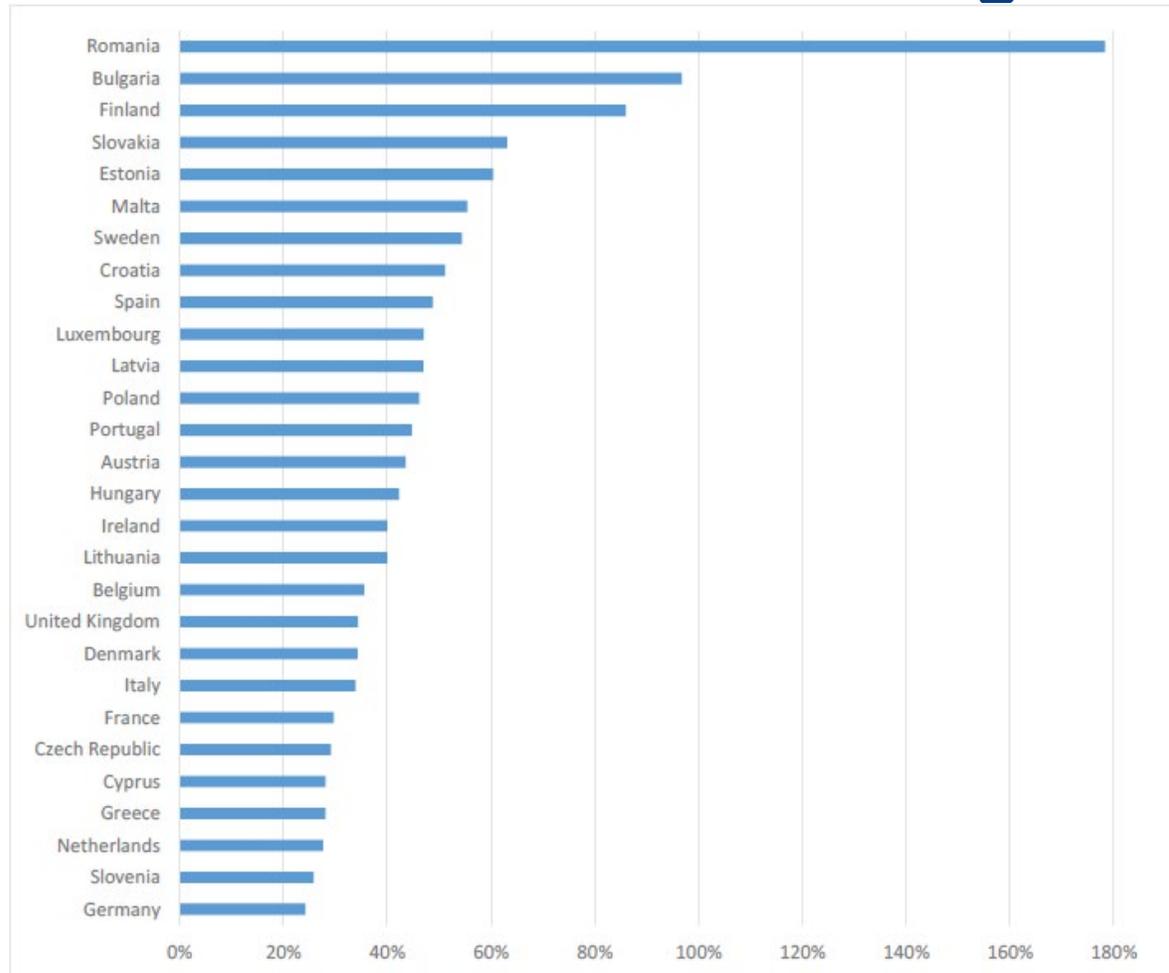
... and the possible gap between them



- TrackFin:
 - Methods tool to track financial flows in the water and sanitation sector
 - Provides the evidence base for WASH financing decisions
 - Provides framework for obtaining reliable financial data and establishing national WASH accounts



Estimated additional expenditures needed to reach water sanitation targets



Source: OECD, 2020



Possible ways to reduce the gap

- Reducing the costs, whilst still reaching the same level of service
 - Efficiency improvements
 - At some point it goes at expense of service level
- Increasing one or more of the sources of finance
- Using repayable finance to fill the gap now, and pay back later
- These can be applied – to different levels of extent - to each of the life-cycle cost categories



Possible ways to lower costs

- Lowering per capita investments by more efficient tendering, procurement and implementation processes
- Reducing non-revenue water, both in terms of physical and commercial losses, so that costs and revenue are in better balance
 - E.g. through utility performance improvement programmes
- Seeking finance at lowest costs, for example via sovereign(-guaranteed) loans
 - E.g. via national public development banks, such as the Netherlands Water Boards Bank, or Ibbank (Turkey)



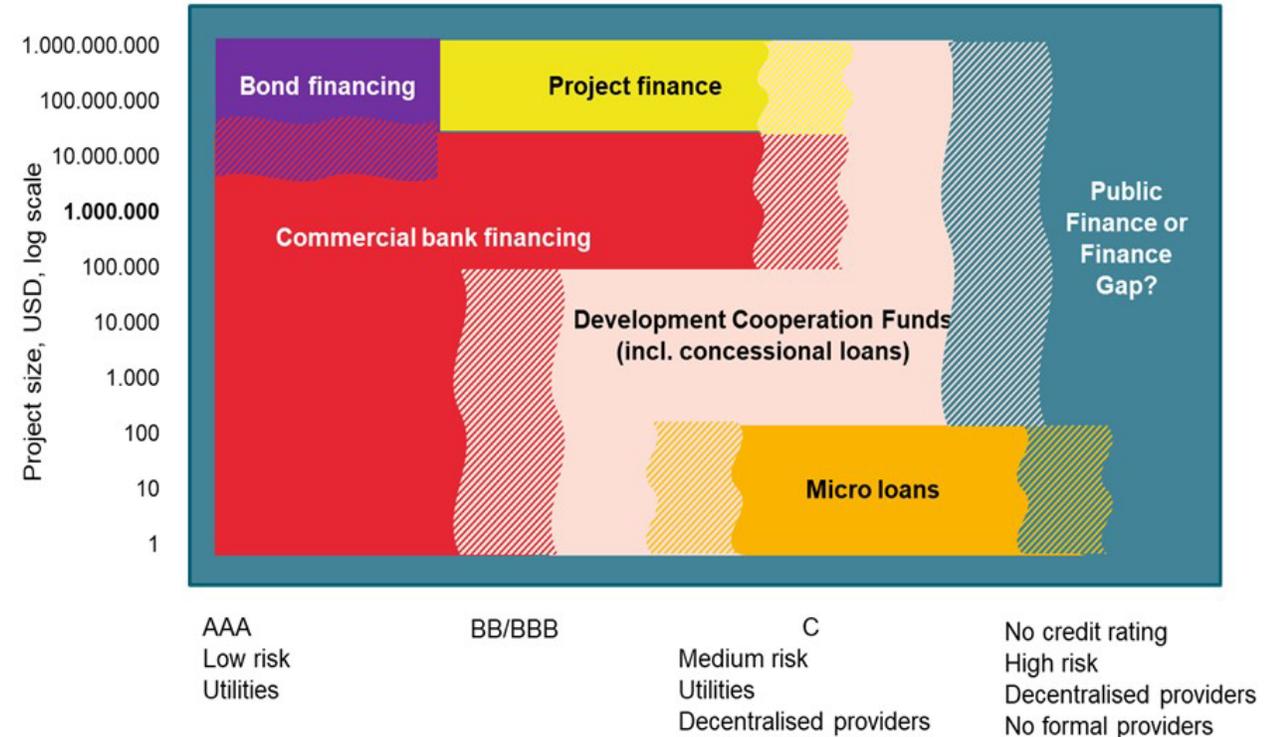
Possible ways to increase sources of finance

- Increasing the amounts of public finance for investments - as far as fiscal space allows
 - Increasing large share of national or local tax revenue to water and sanitation
 - Increase total tax revenue
- Increasing tariff revenue
 - Tariff levels through regulatory reviews
 - Billing and collection efficiency of utilities – closely related to utility performance improvement
 - Promoting and supporting household investments through self-supply (e.g. Scotland)



Possible ways to increase repayable finance

- Spectrum of forms of repayable finance
- For different investments sizes and credit-worthiness of the loan takers
- Ranging from micro-credit for household sanitation or small entrepreneurs to bond-financing for metropolitan utilities

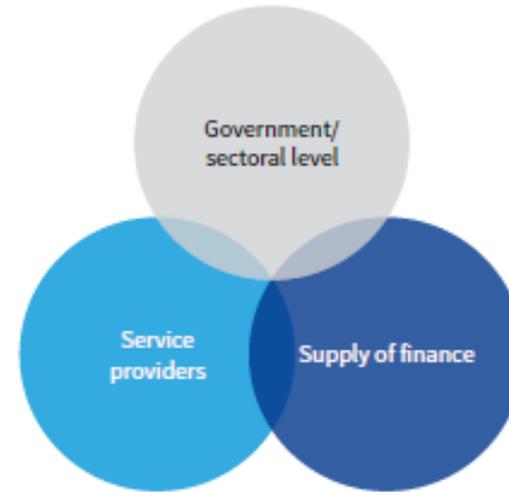


Source: Gietema, van Oppenraaij and Fonseca (2017) for the 2017 International Amsterdam Water Week



From possible ways to strategies

- ... but all easier said than done
- These possible ways require a number of foundational issues – or preconditions – in three areas
 - Government strategies and regulation
 - Service provider performance (management)
 - Supply of finance
- Establishing and strengthening foundations needs to be an integral part of the strategy
- Feasibility and effort for that will differ



1. Planning and financing strategies for maximising public and commercial funds to achieve social objectives
2. Effective tariff-setting practices and economic regulation
3. Adequate performance regulation and transparent accountability mechanisms
4. Clarity of mandate and performance obligations of service providers

5. Solid financial and operational management
6. Capacity strengthening for business planning
7. Enhanced autonomy and legal framework

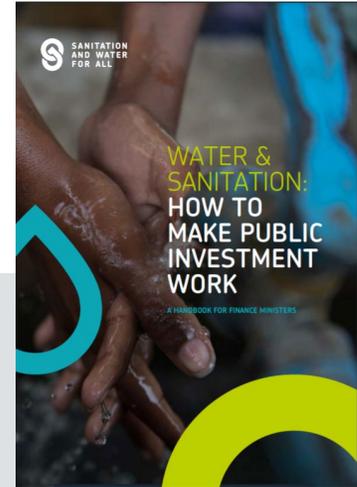
8. Rectifying the mismatch between commercial bank risk profile and WASH sector realities
9. Avoiding mechanisms that create market distortions
10. Targeting development finance for maximum impact

Source: Porries et al. 2019



From possible ways to strategies

- SWA handbook for Finance Ministers therefore lists these in terms of
 - potential to reduce the gap
 - degree of reform required



From possible ways to strategies: examples

- Maximizing existing resources

- Sector level financial strategy and planning
- Utility performance improvement programmes
- Utility/sector incentive-based finance
- Improving subsidy targeting

- Mobilize more funding

- Tariff regulation, and ensuring its compliance
- Increase budget share and/or have earmarks for water and sanitation in taxes

- Increase repayable finance

- Mobilizing domestic public development banks for water and sanitation
- Municipal development funds, also for clusters of smaller municipalities, and sector revolving funds
- Establishing service providers' credit worthiness
- Microfinance approaches in relation to self-supply
- Aggregation of service providers and municipalities to access loans
- Project preparation facilities

- Innovative and least-explored approaches

- Climate funds
- Social impact bonds



From possible ways to strategies

- Many of these strategies are interlinked and need to be sequenced
 - Attracting repayable finance for utilities will only be possible...
 - ... if these make efficient use of existing resources and have a stable and reliable revenue from tariffs...
 - ...which in turn requires strong frameworks for performance and tariff regulation
 - ...in addition to having bankable projects...
 - ...which require upfront (public) investments in utility performance improvement programmes and project preparation facilities



Conclusions: towards a water and sanitation sector finance strategy

- The financial gap to reach water and sanitation targets in many countries is estimated to be very high
- Cannot be reduced by 1 or 2 single measures – needs comprehensive strategy at sector level
 - Assessment of the gap between costs and sources of financing
 - Identification of the possible ways to reduce the financial gap
 - Identification of the extent to which the foundational elements are in place to enable that
 - Sequencing and relations between the specific strategies, and the upfront investments required to reach them
 - Responsibilities and commitments for implementation



Conclusions: towards a water and sanitation sector finance strategy

- Number of global resources and process available to support countries in that
- Alignment with Protocol on Water and Health
 - Target setting
 - Strengthening governance as precondition for attracting finance
 - Work programme on finance



Thank you, and questions?

Selected resources

- OECD. 2020 <https://www.oecd.org/environment/financing-water-supply-sanitation-and-flood-protection-6893cdac-en.htm>
- WB cost estimate <https://openknowledge.worldbank.org/handle/10986/23681>
- GLAAS report 2019 https://www.who.int/water_sanitation_health/publications/glaas-report-2019/en/
- TrackFin methodology <https://apps.who.int/iris/bitstream/handle/10665/259899/9789241513562-eng.pdf;jsessionid=5F17E3D1EE52C1E141A1FE0AFF8EAE2?sequence=1>
- SWA handbook for finance ministers https://www.sanitationandwaterforall.org/sites/default/files/2020-12/Financial%20Handbook_EN.pdf
- Guidance document costing and financing small scale water supply and sanitation <https://www.euro.who.int/en/publications/abstracts/costing-and-financing-of-small-scale-water-supply-and-sanitation-services-2020>
- Foundations for attracting finance <https://www.ircwash.org/resources/mobilising-finance-wash-getting-foundations-right>

